June 18, 2008

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fourth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

This is to inform you that on June 18, 2008, the following bill was signed into law:

HB2978 HD1 SD2 CD1 A BILL FOR AN ACT RELATING TO EDUCATION. (ACT 188)

Sincerely,

LINDA LINGLE
A BILL FOR AN ACT

RELATING TO EDUCATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The legislature finds that the University of Hawaii is accountable to the legislature and should be accountable for its funds in a manner that is consistent across the campuses and understandable by the legislature and the public. This situation necessitates that the goals of the system's strategic plan be stated in measurable terms that relate to fiscal allocations. The overall purpose of this Act is to delineate a budgeting system for the University of Hawaii.

The University of Hawaii has been developing a long-term financial plan pursuant to a request from the legislature under Senate Concurrent Resolution No. 137, adopted in 2007.

Additionally, Senate Concurrent Resolution No. 79, adopted in 2007, requested the University of Hawaii to report on the linking of funding for individual campuses and performance goals, which would require the University of Hawaii to develop a budgeting system that reflects achievements, challenges, and needs.
Presently, the University of Hawaii's operational funding is determined each fiscal biennium based on specific program and personnel requests. In addition, supplemental budget requests are prepared for the second year of each fiscal biennium to address unforeseen issues and funding deficiencies that have arisen after the biennial budget has been approved and funds allocated. State appropriations for the University of Hawaii fluctuate based on current spending needs and state general revenue levels.

As a guide, the University of Hawaii system strategic plan was prepared in 2002 as a means for the university to chart its course through 2010. The strategic plan outlined the University of Hawaii's vision, mission, commitments and core values, and planning imperatives. The plan identified the following key strategic goals for the university as a means of advancing its strategic imperatives, including developing:

1. Educational effectiveness and student success;
2. A learning, research, and service network;
3. A model local, regional, and global university;
4. Faculty, staff, students, and their environment; and
5. Resources and stewardship.
During fiscal year 2007-2008, the University of Hawaii reexamined its strategic plan to update it for the next eight years. As the only public institution of higher education in the state, the University of Hawaii is largely responsible for helping the state meet its higher education needs, which include:

(1) Increasing the educational capital of the state;
(2) Expanding workforce development initiatives;
(3) Assisting in diversifying the economy; and
(4) Addressing underserved regions and populations of the state, particularly native Hawaiians.

These goals are being incorporated into the strategic plan that will guide the university through 2015.

The next step is to develop a financial plan to reach the strategic goals. The objective is to develop an educational compact that would define the long-term goals to address Hawaii's major economic challenges and align the University of Hawaii with the achievement of these goals. The university would be accountable for meeting performance standards, and the higher education compact would be used to clearly link funding for the university with specific goals and performance measures.
Developing the educational compact requires delineating a financial plan that would link the strategic plan goals to accompanying funding. Thus, there will be a long-term component to the financial plan that indicates the long-term costs of achieving the strategic goals and provides long-term funding targets for each institution within the University of Hawaii system. There will also be a medium-term component to the financial plan that will cover three biennial periods, starting with the 2009-2011 biennial budget and extending to 2015 to cover the same period as the strategic plan. The financial plan will outline the financial costs to achieve the strategic plan and will be based on measurable goals.

The long-term component will include the following:

1. **Base operating funds**—the ongoing fiscal obligations that need to be adjusted for inflation and obligations, such as collective bargaining;
2. **Capital improvement funding**—annual and deferred maintenance obligations; and
3. **Incentive and performance outcome funding**—funds provided as a result of achieving specific performance goals.
The purpose of this Act is to require the University of Hawaii to develop an incentive and performance outcome funding component for the long-range financial plan. This requirement shall attempt to accomplish the following:

1. Increasing legislative and public support for higher education;
2. Allocating funds through a dual approach of incentives and performance-based funding;
3. Monitoring the general condition of the University of Hawaii system;
4. Identifying potential sources of problems or areas for improvement;
5. Improving the effectiveness and efficiency of colleges and universities within the University of Hawaii system;
6. Focusing program, department, college, and university efforts on state priorities and goals;
7. Assessing progress on state priorities and goals to improve graduate and undergraduate education; and
8. Improving consumer information on higher education.

This Act also establishes a task force in the University of Hawaii to assist in developing a budgetary system that includes
an equitable, consistent, and responsive funding formula for the
distribution of fiscal resources to the various campuses.

SECTION 2. (a) The University of Hawaii shall prepare and
provide to the legislature an annual incentive and performance
report and plan in November of each year beginning in 2008. A
major purpose of the annual incentive and performance report and
plan is to assist the legislature in appropriating up to two per
cent of the University of Hawaii's annual budget to facilitate
the university's strategic plan and related state goals.

(b) The 2008 incentive and performance report and plan
shall present University of Hawaii and state workforce
quantitative information that form the baseline data for future
comparisons. The university shall include at least the
following baseline data for the past five years by program,
department, campus, and university:

(1) The number of full-time equivalent students;

(2) The number of students who have transferred to other
    institutions of higher education within the University
    of Hawaii system;

(3) The number of students who have graduated;

(4) The number of full-time equivalent faculty;
(5) The number of openings in major workforce shortage areas, including but not limited to teaching, nursing, and technology, as data are available through the department of labor and industrial relations or similar sources; and

(6) The number of graduates filling job openings in major workforce shortage areas, as data are available.

The report shall also include a project plan of the same data for the upcoming five years.

(c) Beginning in 2009, the incentive and performance report and plan shall continue to provide the quantitative data, as well as a qualitative data analysis of the success of the endeavors to enroll, transfer, and graduate students and how this objective is matching the university's strategic plan and the state's workforce needs. The allocation of up to two percent of incentive and performance funds shall be based on these results.

(d) The University of Hawaii shall include within its strategic plan measurable goals and performance data.

(e) The University of Hawaii shall collect and maintain benchmark data in keeping with section 304A-2001, Hawaii Revised Statutes.
(f) The annual incentive and performance report shall describe the success of previous incentive and performance plans by analyzing the outcome performance measures in relation to plan goals. The report shall also propose the following year's incentive and performance plan, including identifying the goals, performance outcome measures, and sources of funding, which may include new general fund appropriations, reallocated existing general fund appropriations, and other sources of funding available to the university. Data appropriate to the individual performance measure shall be provided in the annual report.

SECTION 3. (a) There is established in the University of Hawaii a task force to assist the University of Hawaii in developing a budgetary system that includes an equitable, consistent, and responsive funding formula for the distribution of fiscal resources to the various University of Hawaii campuses. The funding formula shall:

(1) Be linked to the enrollment of full-time equivalent (FTE) students at each campus;

(2) Assign different weights in recognition of the varying costs and revenues relating to educating different categories of students, such as:
(A) The different classifications of students, including two-year, undergraduate, graduate, and professional-program students, and resident and nonresident students;

(B) Students who are enrolled in programs that address the major workforce needs of the state, including teacher education; nursing; and the science, technology, engineering, and math disciplines; and

(C) Students with special support needs, including those from underserved populations or who are at-risk, because they are subject to language, cultural, economic, or other disadvantages due to their home and community environment;

(3) Include an incentive and performance component that recognizes the unique goals and missions of the University of Hawaii's various campuses, as well as the higher education needs of the state;

(4) Be as simple and transparent as possible and be designed to allow the funding formula to be used as a basis for planning; and
(5) Provide for transparency and accountability to ensure
the efficient use of state resources.

(b) The members of the task force shall consist of six
members as follows:

(1) The chancellor of the University of Hawaii at Manoa or
the chancellor's designee;

(2) The chancellor of the University of Hawaii at Hilo or
the chancellor's designee;

(3) The chancellor of the University of Hawaii at West
Oahu or the chancellor's designee;

(4) The vice president or interim vice president of the
University of Hawaii community colleges or the vice
president's or interim vice president's designee;

(5) One member appointed by the president of the senate;
and

(6) One member appointed by the speaker of the house of
representatives.

(c) The task force shall select a chairperson by a
majority vote of its members. A majority of the members of the
task force shall constitute a quorum to conduct business. The
concurrence of the majority of the members of the task force
shall be necessary to make any action of the task force valid.
(d) The task force shall be exempt from chapter 92, Hawaii Revised Statutes; provided that the task force shall make a good faith effort to make its proceedings and work products accessible and available to the general public in a manner consistent with the intent of chapter 92, Hawaii Revised Statutes.

(e) The chief financial officer for the University of Hawaii system, or the chief financial officer's designee, shall serve as the liaison between the task force and the president of the University of Hawaii.

(f) The University of Hawaii shall hire, as a consultant, an independent higher education finance expert to work with the task force to develop the funding formula. The consultant shall have experience working with policymakers in other states to develop or improve funding models, including funding formulas, to allocate public funds to campuses within the respective state's higher education system.

The task force shall provide the consultant with the data necessary to develop the funding formula, including data relating to historical enrollment growth, future enrollment projections, estimated costs of educating different categories
of students, and performance incentives and goals for each of
the various campuses.

(g) The task force shall submit to the president of the
University of Hawaii, for the president's approval, a report of
its progress, and any findings and recommendations, including
those of the consultant, to include:

(1) Information as to how full-time equivalent enrollment,
historical enrollment growth, future enrollment
growth, enrollment mix, and similar factors should be
linked to funding, through formula funding, base
funding, incentive funding, or any other methodology;

(2) The consultant's analysis and expert opinion as to the
methodology to be employed and as to whether campuses
are underfunded or overfunded, based upon past
enrollment growth, current enrollment, enrollment mix,
funding, and other factors;

(3) The consultant's recommendations as to the amount of
adjustments to the campus base budgets that are needed
to compensate for shortfalls in prior years and how
those adjustments should be accomplished; and
(4) A target date for the completion of a funding formula together with any proposed legislation to establish and implement the funding formula.

If approved by the president, the University of Hawaii shall submit this report to the legislature no later than twenty days prior to the convening of the regular session of 2009.

SECTION 4. This Act shall take effect on July 1, 2008.

APPROVED this 18 day of JUN, 2008

GOVERNOR OF THE STATE OF HAWAII